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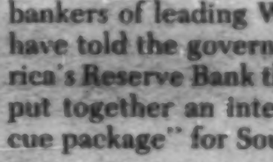

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Survey Finds Wide Bank Interest in Mutual Funds

By ANDREW ALBERT

NEW YORK — Almost half the banks responding to a survey of the nation's 300 largest banks are offering mutual funds to their customers, and they are doing it more to enhance their full-service image than to generate immediate profits.

Those are among the key findings of the new industry survey, which for the first time measures the banking industry's keen interest in mutual funds. Alliance Capital Management Corp. conducted the survey this summer and furnished *American Banker* with its results.

Alliance, which manages a group of mutual funds that are marketed solely through banks, canvassed the top 300 U.S. commercial banks in an effort to better understand its market. Alliance is the asset management arm of Donaldson, Lufkin & Jenrette Inc., the Wall Street securities firm.

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Discount Brokers

Of the 240 banks responding to the survey, 107, or 45%, said they were making some form of mutual funds available to customers. Another 77 banks, or about one-third of the group, said they were not offering mutual funds but were planning to do so.

Some 61% of the banks offering mutual funds or planning to do so said they were interested in the investment products for individual retirement account customers. More than half saw mutual funds as valuable additions to the product menus of their discount brokerage units.

Only 56 banks, or 23% of those responding, said they did not provide

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Citibank Joins in Electronic Commodities Network

Pact Marks Trend Among Technologically Advanced Banks To Sell Nontransactional Financial Data to Corporations

By TOM FERRIS

NEW YORK — Citibank's joint venture with McGraw-Hill Inc. is one of the most striking examples yet of a trend among high-technology banks to emphasize the sale of broad-based financial data to corporations, observers said Tuesday.

Banks that provide operating services to companies have long seen the value of supplementing transactional services with such closely related data as account balances and notification of payments. But now some large institutions are moving closer to the information business itself by selling financial information — such as foreign-exchange rates or news headlines — that is not directly connected to an underlying transaction.

One example is the Los Angeles-based Security Pacific National Bank, which recently started providing late-breaking financial news, economic reports, and interest and commodity rates to corporate cash managers.

Citibank's venture with McGraw-Hill goes several steps further, linking the initial provision of generic financial data — specifically, price quotes on oil products — to the settlement of a resulting transaction.

"This is just the tip of the iceberg," said Lawrence C. Rus-

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Venture with McGraw-Hill for First Time Combines Information Access, Trading, and Settlement Capability

By DAVID O. TYSON

NEW YORK — Citibank and McGraw-Hill Inc. Tuesday announced a joint venture to operate what they claim is the first electronic network that combines information access, trading, and settlement capability in the commodities markets.

Called Gemco, for Global Electronic Markets Co., the new partnership takes over the 24-hour-a-day commodity information and trading service McGraw-Hill has operated for two and a half years through a wholly owned subsidiary, Electronic Markets & Information Systems (EMIS). EMIS presently enables two customers to negotiate on-line for a trade in the spot or forward contract market.

Gemco intends to bring banks onto the network directly. Building on the present service, it said it will enhance the trading capability and add the ability for customers to issue settlement instructions to their banks, arrange letters of credit, obtain bankers acceptances or other financing, transfer funds to pay for trades, arrange spot or future foreign exchange transactions, and monitor their bank balances, cash, debt, and foreign currency positions.

Though Citibank holds a 50% interest in Gemco, the system is open to all banks doing an international business. The

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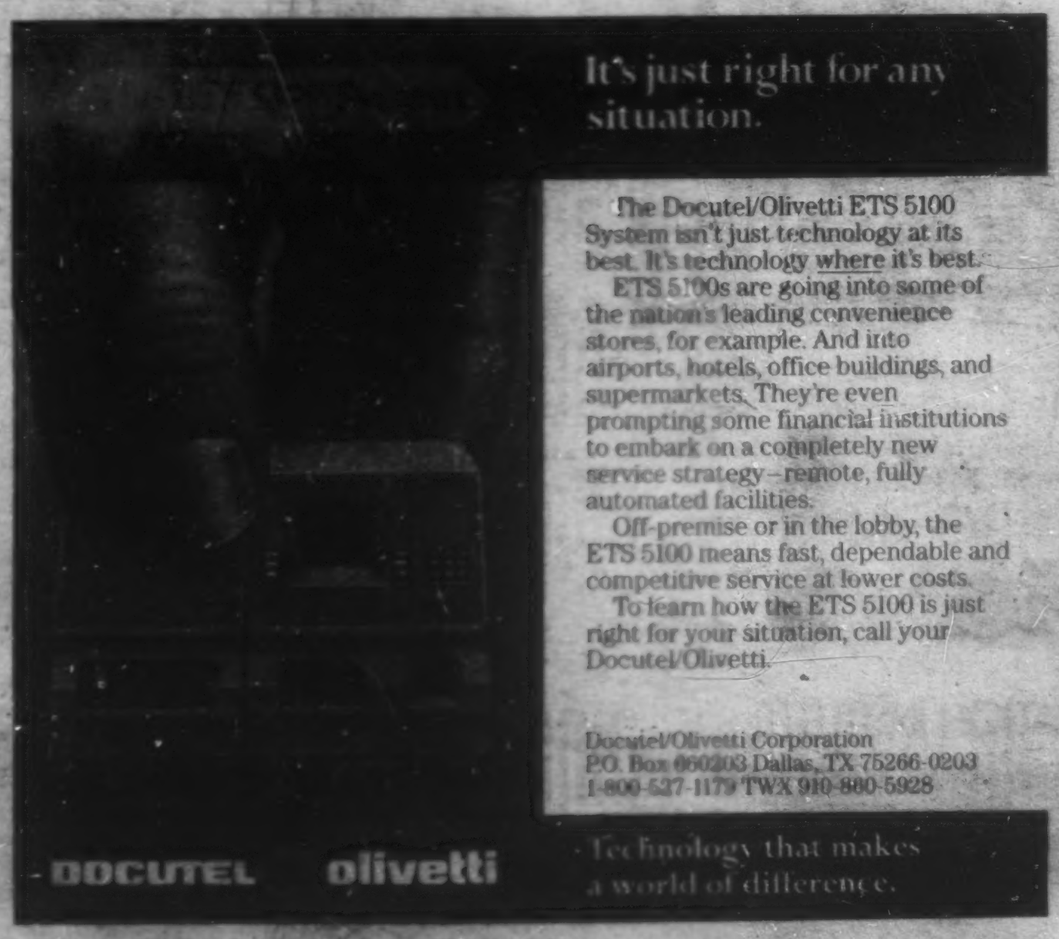
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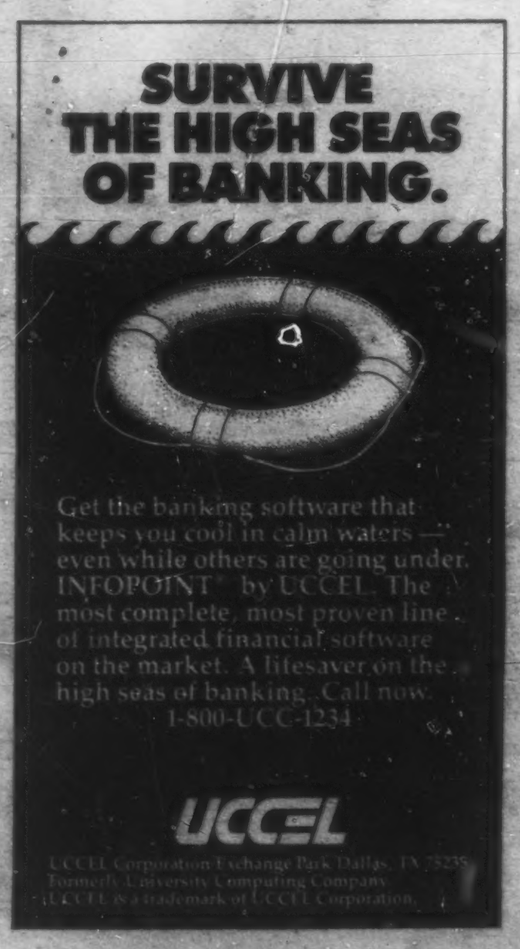
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Banks Offer Mutual Funds to Cultivate Image, Survey Finds

Continued from Page 1
customers with mutual fund services and had no plans to start. Most of those institutions said the marketing of mutual funds was simply not among their top priorities.

Battle Cry Is 'Full Service'

The findings quantify the banking industry's interest in developing long-term customer relationships by broadening product lines. "The battle cry in the commercial banking arena is 'full service,' which, according to the bankers we surveyed, includes making mutual funds available on a broader scale than we had anticipated," said Iris Burkat, an Alliance vice president who coordinated the survey.

Ms. Burkat is also the creator of Alliance's four "Decision Funds," which are marketed only through banks and other depository institutions. The funds, developed for the Pershing division of Donaldson, Lufkin & Jenrette, came in response to earlier research showing that banks are ideal outlets for mutual funds, which are pools of funds invested for a common purpose.

Two-thirds of the banks offering or planning to offer such investment alternatives said in the survey that mutual funds were "necessary to complete their product line." Of that group, which was permitted to cite more than one reason for offering mutual funds, 56% said that providing access to the investment pools was key to strengthening a bank's customer relationship.

"The bankers felt their clients appreciated the convenience of investing within the comfort of their own bank," Ms. Burkat said. And banks, she added, risk losing clients to other financial institutions if they do not make mutual funds available as an investment alternative. The survey showed that 46% of those offering or planning to offer mutual funds said they felt competitive pressure to do so.

Only 20% of those favoring mutual funds cited profitability as a reason for offering mutual funds. Banks generally seem more eager to establish a lasting market niche and broaden product lines than to generate short-term profits from mutual funds, according to the survey report, entitled "A Study of Banks' Plans for Mutual Funds."

Of the 107 banks now offering mutual funds, 76% are using no-load funds, which carry no up-front sales charge. Load funds, which require investors to pay a sales commission and the cost of distributing shares, are offered by 36% of those banks. Nineteen banks said they offered both load and no-load funds.

Ms. Burkat acknowledged that banks generally forego some profit by offering no-load funds. However, banks offering no-load funds can still require transaction fees from investors and other referral fees from the investment companies that manage and distribute funds.

It is widely believed that banks have veered away from load funds because they require aggressive marketing, which may be viewed by regulators as a violation of federal law.

Until recently, Depression-era laws have kept banks and thrifts out of the mutual fund business. The Glass-Steagall Act of 1933 specifically prohibits banks from "sponsoring" or "distributing" shares of mutual funds. But the legal blockade hasn't held up well against semantic-minded lawyers, who insist their banks merely "make mutual funds available" to customers, and never sell or distribute the shares.

Of the 133 banks that are not offering mutual funds, only 10% said their decision was based on legal concerns — a number that likely would have been far higher just two years ago. More than 20% of that group said they have avoided the mutual fund business because of unspecified internal problems at their institutions. And 16% said they feared that mutual funds would compete excessively with their own accounts.

Half of the bankers surveyed said they would change — and mostly expand — their mutual fund plans if banking laws were further deregulated.

For wholesalers of mutual funds, the survey findings portend a rife market among banking institutions, assuming cyclical market changes do not diminish the attractiveness of the pooled investments. Among the wholesalers positioned to take advantage of such an outlook are Alliance; Fidelity Group of Boston; Dreyfus Corp. of New York; Shearson Lehman Brothers Inc., a unit of American Express Co.; and Federated Investors, the Pittsburgh-based subsidiary of Aetna Life & Casualty Co.

Of those offering mutual funds, 58% said they are marketing the funds of only one investment company. The remaining 42% are employing at least two investment firms; some are offering dozens.

To compile its data, Alliance conducted telephone interviews with executives in charge of investment products.

Alliance and its sister company, Donaldson, Lufkin & Jenrette, were acquired in January by the Equitable Life Assurance Society of the United States. ■

Mutual Fund Activity at Top US Banks

Of the banks surveyed, how many currently offer funds?	107	45%
Of the banks surveyed, how many are not offering funds?	133	55%
Of those not offering funds, how many plan to?	77	58%
Of those offering funds, how many use just one investment company's funds?	62	58%
Of those offering funds, how many use two or more companies' funds?	45	42%

Why Banks Favor Mutual Funds

	Number	Percent
Provide more full service banking	122	66%
Strengthen bank/customer relationship	103	56%
Response to competitive pressure	85	46%
Profitability	36	20%
Response to customer request	26	14%
Attract new customers	15	8%
Other	2	1%
No response	3	2%

Note: Many banks cited more than one motivation

Why Banks Avoid Mutual Funds

	Number	Percent
Low priority	58	44%
Internal bank problems	28	21%
Competition with other products	21	16%
Low Profitability	20	15%
Low customer interest	19	14%
Legal questions	15	10%
Prohibitive bank policy	3	2%
Other	9	7%
No response	1	1%

Note: Some banks cited more than one motivation

Source: Based on a survey of the 300 largest U.S. banks, with 240 responding, by Alliance Capital Management Corp.

High Rates, Fees Vex Cardholders

By RICHARD RINGER

CHICAGO — High interest rates and high fees on credit cards are the primary concerns of consumers using credit cards, according to a new national survey.

Yet despite these concerns, the survey found that consumers are using their credit cards more often, and more than half of the consumers maintain a monthly carry-over balance of $250 or more.

The survey was conducted in June and July by the Bankcard Holders of America, a private, nonprofit consumers organization founded in 1980. The group's 150,000 members were mailed a survey and asked to respond to 12 questions; more than 3,500 members replied. All of those who responded have a bank-issued Visa or MasterCard, or both.

The survey was the first of its kind done by the group, making it difficult to spot trends and changes in consumer attitudes. But Marla Kaplan, associate director of the group, said the survey showed that, contrary to the arguments of banks issuing credit cards, consumers are concerned about interest rate charges and service fees.

Of those consumers responding to the survey, 39% said that high interest rates charged on credit card purchases is the most important issue facing consumers buying on credit. Another 24% cited the annual fees for credit cards as the most important issue, while 21% cited surcharges on credit card purchases.

In all, 66% of the respondents said that they would switch to another card if it offered a lower interest rate. Nearly two-thirds of the consumers, 62%, said that they pay interest rates of 18% to 20% on outstanding credit card purchases. Another 13% said they pay interest rates of 20% to 21%; 4% pay over 21%. Somewhat surprising to even Ms. Kaplan was that 11% of the consumers said they don't know what interest rate they pay on outstanding credit card balances.

A substantial majority of the survey respondents said they believed that banks should not charge annual fees for their credit cards. In all, 73% of the consumers said that banks were not justified in charging the annual fee; 15% said banks were justified; and 12% said they didn't know.

But the interest rates and fees consumers pay aren't stopping them from making purchases with credit cards. The survey found that 80% of the consumers have used their credit cards as often or more often during the last year.

And after buying on credit, consumers aren't immediately paying for the purchases charged to their accounts. The survey showed that 68% of the consumers regularly carry over monthly balances on their accounts. Of that total, 38% said they maintain a monthly average balance of over $500; 15% said their monthly carry-over was $250 to $500; 8% had a monthly carry-over of $100 to $250; 8% had under $100; and 31% had no monthly carry-over balance.

Other Findings

Some of the other findings were:

- 47% of the consumers said they would like a "universal" plastic card that would serve as a credit and debit card.
- 93% of the respondents said they had not been a victim of credit card fraud during the past year.
- Of those who were fraud victims, 37% said that their credit card number had been used, while 27% said that their card had been stolen.

Bankcard Holders of America, meanwhile, is scouting the country for banks and savings and loans offering lower interest rates on card purchases, and no or low annual fees and service charges. The group hopes to get those financial institutions to participate in a venture of providing their card to members of Bankcard Holders of America.

Ms. Kaplan, the group's associate director, said test programs got started in the last month with a St. Louis bank and a San Diego savings and loan. ■

Vermont Bankers Group Names Hayward Exec VP

MONTPELIER, Vt. — Timothy Y. Hayward has been appointed executive vice president of the Vermont Bankers Association, effective Sept. 30.

Mr. Hayward was an executive assistant to Vermont Gov. Richard Snelling from 1978 until January 1985. He was responsible for a wide variety of governmental affairs.

In 1976, Mr. Hayward was elected as a representative and served one term in the Vermont House. Prior to being a state representative, he was an aide to U.S. Rep. James Jeffords in 1974, managing his first successful campaign for the U.S. House of Representatives and his district office in Montpelier in 1975 and 1976. ■

Arizona Bank's O'Connor Joins Thunderbird Bank

PHOENIX — William J. O'Connor has joined Thunderbird Bank as executive vice president/lending division. He will be responsible for the supervision and administration of the bank's entire lending portfolio.

Prior to joining Thunderbird this month, Mr. O'Connor was a senior vice president with the Arizona Bank. ■

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Citizens & Southern of Georgia to Buy C&S in South Carolina for $400 Million

By BART FRAUST

NEW YORK — Citizens and Southern Georgia Corp. said on Tuesday it has agreed to acquire the Citizens and Southern Corp. of Charleston, S.C., for about $400 million in cash.

Interstate Banking

Despite their similar names, the companies are not currently affiliated. They once were linked by family ties.

The proposed acquisition is the second interstate deal for the $12 billion-asset Citizens and Southern Georgia. The company this month completed the acquisition of Landmark Banking Corp. of Florida in Fort Lauderdale.

Citizens and Southern of South Carolina, which has $2.3 billion in assets, is the second banking company from that state to acccept an interstate takeover offer. In July, NCNB Corp. of Charlotte, N.C., agreed to acquire the $1.9 billion-asset Bankers Trust of South Carolina in Columbia.

Effective July 1, the acquisition of South Carolina banks by banks from a band of southeastern states will be permitted. A similar law in Georgia is already in operation.

The acquisition is the latest regional deal announced since the June 10 decision by the U.S. Supreme Court affirming the constitutionality of these arrangements.

Under terms of the Citizens and Southern agreement, each share of the South Carolina bank holding company will be exchanged for $55 in cash. The

➤ Citizens: Page 30

CompuServe On the Rise

Subscribers Top 235,000

By DAVID O. TYSON

COLUMBUS, Ohio — CompuServe announced Tuesday that subscribers to its consumer information service now exceed 235,000, and that it is signing up 10,000 a month.

Home Banking

But Charles McCall, CompuServe's president and chief executive officer, said half its revenues still come from wholesale services to banks and other commercial

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Coming to Grips with Alcohol and Drug Abuse – and AIDS

Most Banks Reluctant to Test Employees for Drug Use

By MARYN McKENNA

WASHINGTON — American industry loses $15 billion in productivity yearly from alcohol and drug abuse by employees, according to a recent federal study.

But in a show of hands at a recent American Bankers Association conference on human resources here, a majority of bank human resource professionals opposed chemically testing employees for drug use.

"We don't do it, and we don't plan to do it," said Judith A. Norton, vice president of Manufacturers Hanover Trust Co. in New York. "It's an invasion of privacy, plus I don't think we have gotten any sense that the tests work. The doctors are split on whether they're reliable."

"Banks are using polygraphs or honesty tests for drug use, but no one I know of has gone into chemical testing," said Veronica Biggins, senior vice president of the Citizens and Southern National Bank in Atlanta. "I'm not sure banks recognize drugs as a problem of that magnitude," she said at the banking conference on human resources.

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California Banks Taking First Steps to Cope with AIDS

WASHINGTON — In the past year, at least four employees in two San Francisco banks have died of AIDS — acquired immune deficiency syndrome. Banks in California are beginning to grapple with educating victims and their coworkers about real and imaginary dangers.

According to Cathie A. Shattuck, a partner with the Los Angeles labor law firm of Epstein, Becker, Bosody & Green, AIDS has become an issue much faster than most human resources professionals are prepared to deal with it. The disease has spread rapidly in California and New York. On Aug. 14, Los Angeles passed a ruling that outlaws discrimination against employees who have contracted AIDS.

Because so little is known about AIDS — and because the disease has primarily been limited to gay men and intravenous drug users — a stigma is still attached to it.

"AIDS is becoming a problem in a big way in California banks," Ms. Shattuck said at the recent American Bankers Association conference on human resources in Washington, D.C. "They are dealing with it very conservatively. Employees have been allowed to return to work if they can show a

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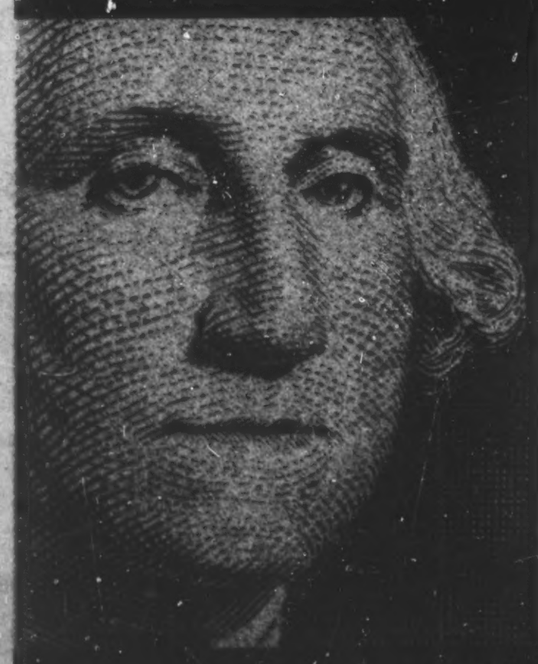

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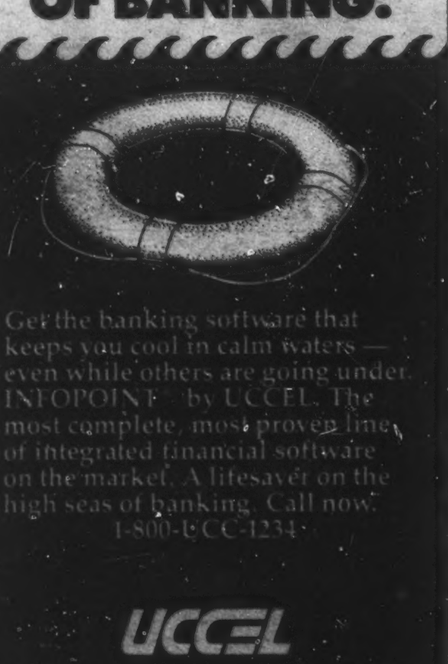

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